

Brazil's political factor in business

Business



Political factor by ashraful islam Trade Policies in political factor Brazil's economic history has been influenced remarkably by foreign trade trends and policies. Successive cycles of export booms in such commodities as sugar, gold and diamonds, rubber, and coffee played major roles in Brazilian development before World War II. In the 1930s, the collapse of coffee prices signaled a turn inward, resulting in a nascent industrialization. In succeeding decades, industrial development was fostered deliberately through restrictive trade policies, making Brazil a relatively closed economy by the mid-1960s.

Only in the early 1990s did Brazil begin significant liberalization of its trade policies, and even these reforms were modest by comparison with those in a number of other Latin American nations. Government intervention in foreign trade has a long history in Brazil, reaching back to the colonial period when Portugal forbade Brazilian trade with other nations. Following independence in 1822, Brazil opened its ports and expanded its trade with other nations, particularly Britain. Extensive government regulation of trade continued, however, with tariffs providing over half of the government's revenue before World War I.

Other forms of intervention in trade included the 1906 coffee price support plan, which was a sophisticated attempt to exploit Brazil's monopolistic position in the world coffee market. Before World War II, trade policies were used mostly as a source of revenue or as a response to specific groups such as the coffee producers, rather than as a means of achieving national economic goals. In the early 1950s, Brazil began to use trade policy in a more deliberate way to promote industrialization. The forced reduction in Brazilian

imports after 1929 had resulted in the first major industrial growth in Brazil, centered in Sao Paulo.

Heeding this apparent lesson, policy makers in the 1950s argued that measures that deliberately reduced imports would stimulate domestic production, thereby encouraging technological development and increasing employment in activities that were regarded as more "modern" than Brazil's traditional agricultural and extractive activities. The steep rise in world oil prices that began in late 1973 soon ended Brazil's move toward greater trade openness. The approximate balance between imports and exports in the early 1970s became an unprecedented US\$4. billion deficit in 1974. Although record levels of external capital flows financed this deficit, Brazilian policy makers responded by restricting imports. In June 1974, import financing for many products was suspended, while tariff rates on more than 900 items were doubled. Over the year, restrictions were increased further, and in 1975 the government required that imports be paid for in advance with deposits that did not earn interest or any correction for inflation. On the export side, further measures were taken to promote exports, especially for manufactures.

Despite these measures, Brazil's trade balance remained in deficit for most of the 1970s. The combination of tightened import controls, real depreciation, and the fall in domestic demand induced by the restrictive macroeconomic policies of the early 1980s resulted in a sharp adjustment in Brazil's external accounts. The magnitude of the adjustment appears to have surprised even many of its proponents, both in the Brazilian government and among creditors. After 1983 the massive trade surpluses averaged more

than 3 percent of GDP, compared with negative or negligible levels through most of the 1968-82 period.

In 1984, as the full effects of the adjustment program were felt, exports were about double imports, and Brazil's trade surplus reached an unprecedented 6.1 percent of GDP, far exceeding the comparable shares in other important economies such as Japan (3.5 percent of GDP) and West Germany (3.8 percent). By 1984 it was clear that the successful external adjustment had a domestic price, as inflation accelerated to more than 200 percent at annual rates. Trade policy consequently began to be viewed as a potential instrument for internal stabilization, with some import liberalization viewed as a potential contributor to reduced inflation.

In late 1984, a number of the direct controls on imports were cut back, and the number of products on the negative list was reduced substantially. Import financing requirements were also relaxed through exemptions, and tariff surcharges were replaced by smaller additions to the legal tariff. On the administrative side, the Cacex policy of import restrictions for balance of payments purposes was reduced. Although import licenses were not abolished, their approval became a relatively routine operation, and by 1991 most licenses were being issued within five working days.

The CTIC became primarily a reporting and registration agency, which had little of the discretionary power formerly exercised by Cacex. The former CPA, which had been far overshadowed by Cacex, was replaced by an agency coequal with the CTIC, the Technical Coordinating Office for Tariffs (Coordenadoria Tecnica de Tarifas--CTT). With the shift in emphasis in trade policy from discretionary administrative control to the automaticity of <https://assignbuster.com/brazils-political-factor-in-business/>

published tariffs, many of them limited by Brazil's treaty commitments, the CTT's role in formulating import policy became significantly greater than the CPA's had been.

Early in 1991, the Collor de Mello government announced a series of tariff reductions to be phased in over the 1991-94 period. These were among the most far-reaching and significant reductions in Brazilian trade protection in several decades. Earlier tariff reductions often had been largely cosmetic, only reducing rates that were prohibitive to high levels that still barred many imports. The 1991 reforms went much further, and in many sectors reduced rates to about a third of their level in the early 1980s.

Equally important, the reforms reduced the wide variability or dispersion of tariff rates that were once characteristic of Brazilian trade policy. The overall trend in Brazilian trade policy is clear. By the mid-1990s, Brazil had become a much more open economy than it had been a decade earlier. priorities in terms of business support Market Overview The Federative Republic of Brazil is Latin America's biggest economy and is the fifth largest country in the world in terms of land mass and population with about 192 million people.

Brazil's economy, the 6th largest in the world, grew 2. 7% in 2011. Growth slowed due to reduced demand for Brazilian exports in Europe and Asia, despite solid domestic demand and a growing middle class. During the past decade, the country has maintained macroeconomic policies that controlled inflation and promoted economic growth. Inflation was at 6. 5% in 2011, and urban unemployment reached a historic low of 6. 0%. Interest rates, though high compared to the rest of the world, remained historically low at the Central Bank benchmark rate of 8. 0% as of July 2012. In 2011, the U. S. as <https://assignbuster.com/brazils-political-factor-in-business/>

Brazil's largest source of imports followed by China, Argentina, Germany, and South Korea. U. S. merchandise exports to Brazil in 2011 were US\$42. 9 billion, and U. S. imports from Brazil were US\$31. 3 billion. Market Challenges Brazil has a large and diversified economy that offers U. S. companies many opportunities to export their goods and services, and U. S. exports are increasing rapidly. Doing business in Brazil requires intimate knowledge of the local environment, including both the explicit as well as implicit costs of doing business (referred to as the “ Custo Brasil”).

Such costs are often related to distribution, government procedures, employee benefits, environmental laws, and a complex tax structure. Logistics pose a particular challenge, given infrastructure limitations posed by nearly a decade of economic expansion. In addition to tariffs, U. S. companies will find a complex customs and legal system. Market Opportunities There are few, if any, sectors in Brazil that do not have excellent short term opportunities. Certain sectors of the Brazilian market have experienced higher than average growth, such as air transportation, telecoms, oil and gas, and mining.

Under the second phase of the Growth Acceleration Program (PAC II), the Government of Brazil will spend R\$955 billion (the equivalent of around US\$470 billion) in development of the country's energy generation and distribution system, roads, railroads, ports, and airports as well as stadiums as it prepares for the World Cup in 2014 and the Olympics in 2016. Other promising areas for U. S. exports and investment include agriculture, agricultural equipment, building and construction, aerospace and aviation,

electrical power, safety and security devices, environmental technologies, retail, and transportation.

The Brazilian national oil company Petrobras' expansion may represent the largest global business opportunity in the oil & gas sector until 2020. The offshore pre-salt oil deposits discovered in 2006 and 2007 are estimated to exceed 60 billion barrels in probable or recoverable reserves, and could place Brazil among the world's top ten oil-producing countries. Petrobras anticipates that it will invest \$224 billion in exploration and development through 2015. Brazil is one of the largest IT markets within the emerging economies. IT end-user spending in Brazil is expected to grow to \$134 billion in 2014.

The largest share of spending will be on telecom equipment, representing 72% of the market, followed by IT services at 13.3% and computing hardware at 11.9%. In the years leading up to the 2016 Olympic Games in Rio de Janeiro, Brazil will host several international mega-events. In 2011, Brazil hosted the World Military Games and the Pan-American Maccabi Games and in 2012, Rio de Janeiro hosted the Rio+20 global environmental sustainability conference. In 2013, Brazil will host a papal visit and the World Youth Day event as well as the soccer Confederations Cup.

In 2014, twelve Brazilian cities will host the soccer World Cup. The Government of Brazil expects to invest \$106 billion in the preparations for these events. These investments, which will include outlays for infrastructure, construction, transportation systems, port improvements, public security, and airport infrastructure upgrades, will present significant commercial opportunities for U. S. companies. Most of the major

<https://assignbuster.com/brazils-political-factor-in-business/>

infrastructure upgrades will be carried out through Public-Private Partnerships under Brazil's Growth Acceleration Program. Market Entry Strategy

Brazil's business culture relies heavily on the development of strong personal relationships. Companies need a local presence and must invest time in developing relationships in Brazil. The U. S. Commercial Service encourages U. S. companies visiting Brazil to meet one-on-one with potential partners. One of the best ways for U. S. companies to enter the Brazilian market is by participating in local trade shows or using the U. S. Commercial Service's Gold Key Service (GKS), through which they can meet with pre-screened potential clients or partners.

It is essential to work through a qualified representative or distributor when developing the Brazilian market. Some firms establish an office or joint venture in Brazil. Further discussion of these alternatives can be found in the "Marketing Products & Services" chapter. It is very difficult for U. S. companies to get involved in public sector procurement without a local Brazilian partner. Education of the workforce Despite being one of the world's most populous countries, Brazil does not have a single university ranked in the top 100 internationally.

Of its college graduates, 5 percent are engineers, far below the rates of countries such as China and South Korea, according to Brazilian businesses. Since Brazil's education system is falling short, Vale, like several other Brazilian companies, has decided to build its own. "For years, technical education was not the main focus of the government," said Marco Dalpozzo, Vale's global human resources director. "Mining was not seen for the last 20

<https://assignbuster.com/brazils-political-factor-in-business/>

years as a great opportunity or a vocational business opportunity for the country. So you have professions for which Vale had to create their own entire system of education. Over the past few years, several Latin American countries have enjoyed soaring growth rates as they exported oil, minerals and agricultural products around the world. In Brazil, gross domestic product more than doubled, to \$1.3 trillion, in the five years ending in 2007, while inflation dropped to 3.6 percent, a quarter of the 2003 level. Yet recent studies have shown that workers in Latin America have less education than those in East Asia and Eastern Europe and that the percentage of students enrolled in high school is far lower than in developed countries.

In Colombia, one out of every 700,000 people receive PhDs, compared with one in 5,000 in developed countries, wrote Jeffrey M. Puryear and Tamara Ortega Goodspeed in a contribution to a book published this year titled "Can Latin America Compete?" "The region's limited number of scientists and advanced degree recipients weakens the region's competitiveness by limiting countries' ability to use and generate knowledge, and to carry out research," they wrote.

For younger students, Latin American countries have focused in recent years on building schools and expanding access to public education, rather than improving the quality of that education, said Emiliana Vegas, a senior education economist at the World Bank. Teachers' pay raises are based on longevity rather than performance, and few parents are used to demanding more rigorous standards. "Most Latin American parents have less education than their kids. They feel their kids are already receiving an advantage they didn't get," said Vegas, who co-authored the book "Raising Student Learning

in Latin America. In the most recent results of the Organization for Economic Cooperation and Development's triennial tests of 15-year-olds from 57 countries, the Latin American countries that participated, including Brazil, Argentina and Colombia, consistently scored near the bottom. " It's not just that kids need to go to school, they need to learn in school," Vegas said.

Brazil - quality of port infrastructure Quality of port infrastructure, WEF (1= extremely underdeveloped to 7= well developed and efficient by international standards)

Definition: Quality of Port Infrastructure measures business executives' perceptions of their country's port facilities. The rating ranges from 1 to 7, with a higher score indicating better development of port infrastructure.

Source: World Economic Forum, Global Competiveness Report | Year | Value |

Year	Value
2007	2.63
2008	2.52
2009	2.65
2010	2.94
2011	2.70

Airports The Brazilian airport network has long been lamented as underdeveloped and poorly maintained. The network is run almost exclusively by Infraero, an authority that reports to the country's defense ministry.

In operation for 37 years, Infraero has more than 28,000 employees and contractors assisting in the management of 67 airports throughout the country. These airports handle 97 percent of all air traffic in the country, with more than 2 million takeoffs and landings and over 113 million passengers annually. 11 The company's charge is quite difficult, considering that the airports are spread across a country the size of the contiguous United States

Roadways Like the United States, Brazil is heavily dependent on its road

system for transportation. However, there is great disparity in the quality of these road networks.

Despite constituting 68 percent of Brazil's transport needs, only 12 percent of the country's 1.6 million kilometers of roads are paved. 20 The consequence of these infrastructure deficiencies is slower and more expensive transport – costs can be up to 35 percent greater on unpaved roads. 21 This affects the booming agricultural sector greatly, as many of the goods are produced in remote locations with poor road conditions. Rail Brazil's national rail network consists of approximately 28,000 kilometers of track, and most of it is operated by private concessionaires.

These concessions have been utilized for 12 years, and the government is reviewing its concession model to make better use of the rail network. “ One of the main objectives of the changes is to put abandoned or low-capacity stretches back into operation. ” 29 As part of the Ministry of Transport's National Plan, Brazil will consolidate a new rail network, developing almost 12,000 additional kilometers of track. 30 These rail lines will serve areas of agricultural and mineral productivity and enable the increased transfer of cargo between transportation modes.

Additionally, the rail lines will be implemented in planned corridors that are specifically designed to link production and consumption regions, as well as production and shipment areas (like ports). The MOT is also studying the feasibility of a corridor that will link railways from Brazil, Paraguay, Argentina, Bolivia and Chile. Economic factors by ashraful islam Economy - overview: Characterized by large and well-developed agricultural, mining, manufacturing, and service sectors, Brazil's economy outweighs that of all

other South American countries, and Brazil is expanding its presence in world markets.

Since 2003, Brazil has steadily improved its macroeconomic stability, building up foreign reserves, and reducing its debt profile by shifting its debt burden toward real denominated and domestically held instruments. In 2008, Brazil became a net external creditor and two ratings agencies awarded investment grade status to its debt. After strong growth in 2007 and 2008, the onset of the global financial crisis hit Brazil in 2008. Brazil experienced two quarters of recession, as global demand for Brazil's commodity-based exports dwindled and external credit dried up.

However, Brazil was one of the first emerging markets to begin a recovery. In 2010, consumer and investor confidence revived and GDP growth reached 7.5%, the highest growth rate in the past 25 years. Rising inflation led the authorities to take measures to cool the economy; these actions and the deteriorating international economic situation slowed growth to 2.7% for 2011 as a whole, though forecasts for 2012 growth are somewhat higher. Despite slower growth in 2011, Brazil overtook the United Kingdom as the world's seventh largest economy in terms of GDP.

Urban unemployment is at the historic low of 4.7% (December 2011), and Brazil's traditionally high level of income inequality has declined for each of the last 12 years. Brazil's high interest rates make it an attractive destination for foreign investors. Large capital inflows over the past several years have contributed to the appreciation of the currency, hurting the competitiveness of Brazilian manufacturing and leading the government to intervene in foreign exchanges markets and raise taxes on some foreign capital inflows.

<https://assignbuster.com/brazils-political-factor-in-business/>

President Dilma ROUSSEFF has retained the previous administration's commitment to inflation targeting by the central bank, a floating exchange rate, and fiscal restraint. | | | | Brazil Interest Rate | | | The benchmark interest rate in Brazil was last reported at 7.25 percent. Historically, from 1999 until 2012, Brazil Interest | | | Rate averaged 16.6 Percent reaching an all time high of 45.00 Percent in March of 1999 and a record low of 7.25 Percent in | | | October of 2012. In Brazil, interest rate decisions are taken by The Central Bank of Brazil's Monetary Policy Committee | | |(COPOM). The official interest rate is the Special System of Clearance and Custody rate (SELIC) which is the overnight lending | | | rate. This page includes a chart with historical data for Brazil Interest Rate. | [pic] Brazil Income Taxes 2012 Last partial update, May 2012

Individual Income Tax: Brazil's individual income tax rates for 2012 are progressive, from 7.5% to 27.5%. Personal annual tax rates 2012 (BRL) | Income (BRL) | % | | 1-18,799 | - | | 18,799-28,174 | 7.5 | | 28,174-37,566 | 15 | | 37,566-46,939 | 22.5 | | over 46,939 | 27.5 |

Note: Nonresidents pay a flat 27.5% tax on income earned in Brazil
 Corporate Tax: Brazil's combined corporate tax rate for 2012 is 34%. The tax consists of a basic tax of 15%. There is also a surtax of 10% for annual income of over BRL 240,000, about \$ 110,000. Additional 9% are added for social contribution on net profits. Capital Gains: Capital gains of companies are added to the regular income. Individuals: Pay 15% tax on capital gains, dividend income from local companies is tax exempt. Residence A foreign company is resident if incorporated in Brazil.

An individual is resident when holding a permanent visa, or a temporary visa with an employment agreement, or even without an employment agreement, when staying in Brazil for more than 183 days within 12 months.

Brazil Tax Deductions

- Losses are carried forward indefinitely. In future years only 30% of the current year taxable income can be set off against the loss.
- Depreciation is deducted using the straight line method. Companies working in 2 shifts can claim 150% of the standard rates, while companies working in 3 shifts are entitled to 200% of the standard rates. Companies involved in development of technical research can use accelerated depreciation for tax purpose.
- There is no company consolidation for tax purpose.
- Thin capitalisation rules relating to interest expenses are in effect in Brazil from 1. 1. 2010.

Brazil Personal Credits and Deductions

For Brazilian residents, the first annual income of BRL 18, 799 is tax exempt. There is a standard monthly deduction for each dependant. Education expenses are deductible, up to a limit. Deductions are also permitted for social security payments by an employee, payments to private Brazilian pension plans, up to a limit, and for alimony payments.

Deduction of Tax at Source

In Brazil tax is deducted at source from the following payments to non residents: Dividend- 0%. Interest- 15%/25%. Royalties- 15%. Services -15%/25%. Social Security The contributions by the employer and the employee are subject to to ceiling defined by law.

Employer: 37. 3% of the gross salary, 28. 8% social security and 8. 5% for severance fund. Employee: 7. 65%-11% of the gross salary. The employee's payment, which is capped, is based on a " contribution salary table", provided by the government.